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# HOUSE BILL No. 1779

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## DIGEST OF INTRODUCED BILL

**Citations Affected:** IC 5-10.2-2-3; IC 5-10.2-4-2.

**Synopsis:** Public pension investment options. Permits members of the teachers' retirement fund (TRF) and the public employees' retirement fund (PERF) to change investment selections once each day, with the change being effective on the next business day after the fund receives the change notice. Reduces the investment allocation increment from 10% to 1%. Establishes the market valuation date of a member's investment as of the day before the date of the member's distribution or annuitization at retirement, disability, death, or suspension and withdrawal.

**Effective:** July 1, 2005.

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January 19, 2005, read first time and referred to Committee on Employment and Labor.

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Introduced

First Regular Session 114th General Assembly (2005)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2004 Regular Session of the General Assembly.

## HOUSE BILL No. 1779

A BILL FOR AN ACT to amend the Indiana Code concerning pensions.

*Be it enacted by the General Assembly of the State of Indiana:*

- 1 SECTION 1. IC 5-10.2-2-3 IS AMENDED TO READ AS  
2 FOLLOWS [EFFECTIVE JULY 1, 2005]: Sec. 3. (a) The annuity  
3 savings account consists of:  
4 (1) the members' contributions; and  
5 (2) the interest credits on these contributions in the guaranteed  
6 fund or the gain or loss in market value on these contributions in  
7 the alternative investment program, as specified in section 4 of  
8 this chapter.  
9 Each member shall be credited individually with the amount of the  
10 member's contributions and interest credits.  
11 (b) Each board shall maintain the annuity savings account program  
12 in effect on December 31, 1995 (referred to in this chapter as the  
13 guaranteed program). In addition, the board of the Indiana state  
14 teachers' retirement fund shall establish and maintain a guaranteed  
15 program within the 1996 account. Each board may establish investment  
16 guidelines and limits on all types of investments (including, but not  
17 limited to, stocks and bonds) and take other actions necessary to fulfill

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its duty as a fiduciary of the annuity savings account, subject to the limitations and restrictions set forth in IC 5-10.3-5-3 and IC 21-6.1-3-9.

(c) Each board shall establish alternative investment programs within the annuity savings account of the public employees' retirement fund, the pre-1996 account, and the 1996 account, based on the following requirements:

(1) Each board shall maintain at least one (1) alternative investment program that is an indexed stock fund and one (1) alternative investment program that is a bond fund.

(2) The programs should represent a variety of investment objectives under IC 5-10.3-5-3.

(3) No program may permit a member to withdraw money from the member's account except as provided in IC 5-10.2-3 and IC 5-10.2-4.

(4) All administrative costs of each alternative program shall be paid from the earnings on that program.

(5) A valuation of each member's account must be completed as of:

(A) the last day of each quarter; and

**(B) whenever the member makes a new investment selection, the day before the effective date of the member's selection.**

(d) The board must prepare, at least annually, an analysis of the guaranteed program and each alternative investment program. This analysis must:

(1) include a description of the procedure for selecting an alternative investment program;

(2) be understandable by the majority of members; and

(3) include a description of prior investment performance.

(e) A member may direct the allocation of the amount credited to the member among the guaranteed fund and any available alternative investment funds, subject to the following conditions:

(1) A member may make a selection or change an existing selection under rules established by each board. A board shall allow a member to make a selection or change any existing selection ~~at least once each quarter:~~ **day.**

(2) The board shall implement the member's selection ~~beginning the first day of the next calendar quarter that begins at least thirty (30) days on the next business day~~ after the selection is received by the board. This date is the effective date of the member's selection.

(3) A member may select any combination of the guaranteed fund

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1 or any available alternative investment funds, in ~~ten percent~~  
 2 ~~(+10%)~~ **one percent (1%)** increments.

3 (4) A member's selection remains in effect until a new selection  
 4 is made.

5 (5) On the effective date of a member's selection, the board shall  
 6 reallocate the member's existing balance or balances in  
 7 accordance with the member's direction, based on:

8 (A) for an alternative investment program balance, the market  
 9 value on the effective date; and

10 (B) for any guaranteed program balance, the account balance  
 11 on the effective date.

12 All contributions to the member's account shall be allocated as of  
 13 the last day of that quarter in accordance with the member's most  
 14 recent effective direction. ~~The board shall not reallocate the~~  
 15 ~~member's account at any other time.~~

16 (f) When a member who participates in an alternative investment  
 17 program transfers the amount credited to the member from one (1)  
 18 alternative investment program to another alternative investment  
 19 program or to the guaranteed program, the amount credited to the  
 20 member shall be valued at the market value of the member's  
 21 investment, as of the day before the effective date of the member's  
 22 selection. When a member who participates in an alternative  
 23 investment program retires, becomes disabled, dies, or suspends  
 24 membership and withdraws from the fund, the amount credited to the  
 25 member shall be the market value of the member's investment as of the  
 26 ~~last day of the quarter preceding before the date of~~ the member's  
 27 distribution or annuitization at retirement, disability, death, or  
 28 suspension and withdrawal. ~~plus contributions received after that date.~~

29 (g) When a member who participates in the guaranteed program  
 30 transfers the amount credited to the member to an alternative  
 31 investment program, the amount credited to the member in the  
 32 guaranteed program is computed without regard to market value and is  
 33 based on the balance of the member's account in the guaranteed  
 34 program as of the ~~last day of the quarter preceding before~~ the effective  
 35 date of the transfer. When a member who participates in the guaranteed  
 36 program retires, becomes disabled, dies, or suspends membership and  
 37 withdraws from the fund, the amount credited to the member shall be  
 38 computed without regard to market value and is based on the balance  
 39 of the member's account in the guaranteed program as of the ~~last day~~  
 40 ~~of the quarter preceding before the date of~~ the member's distribution  
 41 or annuitization at retirement, disability, death, or suspension and  
 42 withdrawal. ~~plus any contributions received since that date plus interest~~

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1 ~~since that date.~~

2 SECTION 2. IC 5-10.2-4-2 IS AMENDED TO READ AS  
3 FOLLOWS [EFFECTIVE JULY 1, 2005]: Sec. 2. (a) Unless a member  
4 elects otherwise under this section, the retirement benefit for each  
5 member consists of the sum of a pension provided by employer  
6 contributions plus an annuity provided by the amount credited to the  
7 member in the annuity savings account.

8 (b) A member may choose at retirement or upon a disability  
9 retirement to receive a distribution of:

10 (1) the entire amount credited to the member in the annuity  
11 savings account; or

12 (2) an amount equal to the member's federal income tax basis in  
13 the member's annuity savings account balance as it existed on  
14 December 31, 1986.

15 If the member chooses to receive the distribution under subdivision (1),  
16 the member is not entitled to an annuity as part of the retirement or  
17 disability benefit. If the member chooses to receive the distribution  
18 under subdivision (2), the member is entitled to an annuity purchasable  
19 by the amount remaining in the member's annuity savings account after  
20 the payment under subdivision (2).

21 (c) Instead of choosing to receive the benefits described in  
22 subsection (a) or (b), a member may choose upon retirement or upon  
23 disability retirement to begin receiving a pension provided by employer  
24 contributions and to defer receiving in any form the member's annuity  
25 savings account. If a member chooses this option, the member:

26 (1) is not entitled to an annuity as part of the member's retirement  
27 or disability benefit, and the member's annuity savings account  
28 will continue to be invested according to the member's direction  
29 under IC 5-10.2-2-3; and

30 (2) may later choose, as of the first day of a month, to receive a  
31 distribution of:

32 (A) the entire amount credited to the member in the annuity  
33 savings account; or

34 (B) an amount equal to the member's federal income tax basis  
35 in the member's annuity savings account balance as it existed  
36 on December 31, 1986.

37 If the member chooses to receive the distribution under subdivision  
38 (2)(A), the member is not entitled to an annuity as part of the member's  
39 retirement or disability benefit. If the member chooses to receive the  
40 distribution under subdivision (2)(B), the member is entitled to an  
41 annuity purchasable by the amount remaining in the member's annuity  
42 savings account after the payment under subdivision (2)(B). If the

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1 member does not choose to receive a distribution under this subsection,  
 2 the member is entitled to an annuity purchasable by the entire amount  
 3 in the member's annuity savings account, and the form of the annuity  
 4 shall be as described in subsection (d) unless the member elects an  
 5 option described in section 7(b)(1), 7(b)(2), or 7(b)(4) of this chapter.  
 6 The amount to be paid under this section shall be determined in the  
 7 manner described in IC 5-10.2-2-3, except that it shall be determined  
 8 as of the ~~last day of the quarter preceding~~ **before** the member's actual  
 9 distribution or annuitization date.

10 (d) Retirement benefits must be distributed in a manner that  
 11 complies with Section 401(a)(9) of the Internal Revenue Code, as  
 12 specified in IC 5-10.2-2-1.5.

13 **SECTION 3. [EFFECTIVE JULY 1, 2005] (a) The board of**  
 14 **trustees of the teachers' retirement fund and the board of trustees**  
 15 **of the public employees' retirement fund shall implement**  
 16 **IC 5-10.2-2-3 and 5-10.2-4-2, both as amended by this act, not later**  
 17 **than June 30, 2006.**

18 **(b) This SECTION expires July 1, 2006.**

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